

CHARTING YOUR COURSE



THE STATE OF MAINE DEFERRED COMPENSATION PLAN NEWSLETTER November 2002

Charting a Course in Rough Seas. Stock market volatility — the rise and fall of stock prices over time — is a fact of life. But, as the market continued to rise in the late nineties, many of us lost sight of this fact, expecting stocks to keep rising in value. Now that the market's extreme ups and downs have brought us back to reality, it's important to focus once again on long-term savings goals. This issue of *Charting Your Course* provides information about remaining a savvy investor in the midst of some unsettling financial weather.

WHAT'S IN THIS ISSUE

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WEATHERING STOCK MARKET VOLATILITY

When the stock market experiences dramatic ups and downs, like it has in recent months, many people begin to lose confidence in their investment strategy. It's only natural that some may start to question the wisdom of investing in the market at all. A substantial market downturn may tempt some people to change their investment strategy mid-stream, without really considering their long-term goals. But, the successful investor knows that financial markets are cyclical by nature, and what goes down, usually goes back up.

For example, while historically stocks have been more volatile than cash and bonds, they have also delivered the best long-term returns. (Of course, this is no guarantee of future results.) As you can see in the chart below, stocks have provided the highest returns for each of these time periods.

ANNUALIZED RETURNS OF FINANCIAL MARKET				
Index	20 Years 1982–2001	15 Years 1987–2001	10 Years 1992–2001	5 Years 1997–2001
Stocks ¹	16.16%	14.83%	14.15%	12.40%
Bonds ²	12.78	9.45	8.97	8.48
Cash Equivalents ³	6.11	5.28	4.56	4.90

Source: Ibbotson Associates

¹ Standard & Poor's 500 Index (Tracks the stock performance of 500 companies)

² 50% Lehman Brothers' Long Term Corporate and 50% Long Term Government

³ 30-day Treasury Bill

During each of these periods, there have been times when the market's value has dropped. But it recovered over time. And, the market losing value is not always a bad thing. In fact, many investors see a decline in market value as an opportunity to buy stocks that are selling at undervalued prices.

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INVESTMENT FUND DETAILS

IMPORTANT NOTE: The information presented here is not intended as investment advice. Its purpose is to help you understand the investment options available through the State of Maine's Deferred Compensation Plan. Your financial strategy and investment choices are entirely your own and should reflect your personal needs and circumstances. State of Maine personnel, by federal law, cannot provide investment advice. For more information, you may want to consult with a professional financial advisor. The investment information shown is current as of September 30, 2002.

THE HARTFORD								
		Return on Investments (net of expenses)				Operating Expenses		
		Rates of Return as of September 30, 2002						
Level of Risk	Investment Options	Quarter to Date	Year to Date	Annualized		Management Fees	Other Expenses	Total Expenses
Low	Hartford Life Fixed Account	*	*	*	*	N/A	N/A	N/A
	Hartford Bond HLS	2.92%	5.27%	8.24%	6.59%	0.51%	0.45%	0.96%
Medium	Hartford Advisers HLS	-9.84	-19.10	-6.73	0.84	0.66	0.75	1.41
	Janus Balanced	-5.50	-8.94	-1.32	6.28	0.87	0.75	1.62
	Hartford Dividend & Growth HLS	-18.90	-22.53	-4.67	0.19	0.68	0.75	1.43
	Hartford Index HLS	-17.53	-28.81	-13.94	-2.80	0.43	0.75	1.18
	Hartford Stock HLS	-17.46	-31.38	-14.57	-2.47	0.49	0.75	1.24
High	MFS Capital Opportunities	-19.02	-35.36	-16.54	-3.01	1.11	0.75	1.86
	Invesco Technology	-30.17	-54.27	-31.92	-12.34	0.99	0.75	1.74
	Janus Twenty	-11.83	-26.78	-21.89	-0.78	0.84	0.75	1.59
	Dreyfus Premier Third Century	-18.76	-33.22	-19.27	N/A	1.18	0.75	1.93
	MFS Mass Inv. Growth A	-14.95	-30.65	-15.19	-1.12	0.87	0.75	1.62
	Hartford Capital Appreciation HLS	-13.16	-26.48	-1.80	2.20	0.68	0.75	1.43
	Hartford Mid Cap HLS	-18.68	-21.09	6.96	13.03	0.70	0.75	1.45
	Franklin Small-Mid Cap Growth	-20.97	-36.17	-10.42	-4.30	0.86	0.75	1.61
	American Century International Growth	-19.84	-22.65	-11.15	-2.56	1.20	0.75	1.95
	Janus Worldwide	-17.71	-28.96	-13.98	-2.65	0.87	0.75	1.62

If you have any questions about the information in this newsletter, please contact your financial services representative or Terry Meehan at the State's Bureau of Accounts and Control at 207-626-8420. You can also visit the State's Deferred Compensation Plan website at <http://www.state.me.us/bac/Deferred%20Comp/index.htm>.

The Hartford

Augusta: 207-623-8421
 Maine: 1-800-640-8787
 Outside Maine: 1-888-457-7824
www.retire.hartfordlife.com

ING Financial Advisers, LLC

Augusta: 207-622-4882
 In Maine: 1-866-826-8063
 Outside Augusta: 1-800-238-8458
www.ingretirementplans.com

VALIC Retirement Services Company

Maine: 1-800-892-5558, ext. 88631
 Outside Maine: 1-800-448-2542
www.valic.com (for annuity inquiries)
www.valic.com/vrs (for mutual fund inquiries)

ING FINANCIAL ADVISERS, LLC								
		Return on Investments (net of expenses)				Operating Expenses		
		Rates of Return as of September 30, 2002						
Level of Risk	Investment Options	Quarter to Date	Year to Date	Annualized		Management Fees	Other Expenses	Total Expenses
Low	ING Fixed Account	*	*	*	*	N/A	N/A	N/A
	ING Bond	3.39%	5.90%	7.52%	6.19%	0.50%	0.51%	1.01%
Medium	ING Balanced	-9.81	-15.05	-4.35	1.21	0.59	0.75	1.34
	Janus Aspen Balanced	-5.60	-8.94	-1.00	7.42	0.66	0.75	1.41
	Calvert Social Inv. Balanced	-9.19	-16.67	-6.73	-0.89	0.88	0.75	1.63
	Fidelity VIP Equity Income	-19.26	-24.51	-7.54	-1.82	0.58	0.75	1.33
	ING Value Opportunity	-20.12	-28.64	-6.81	0.04	0.71	0.75	1.46
	ING Index + Large Cap	-17.42	-27.94	-13.40	-1.69	0.45	0.75	1.20
High	ING Growth	-16.41	-30.89	-18.67	-5.28	0.70	0.75	1.45
	Janus Aspen Growth	-14.83	-28.37	-17.59	-2.92	0.66	0.75	1.41
	Fidelity VIP Growth	-19.10	-34.92	-16.63	-2.55	0.68	0.75	1.43
	ING Index + Mid Cap	-15.34	-16.71	5.00	N/A	0.55	0.75	1.30
	Janus Aspen Aggressive Growth	-13.01	-30.01	-23.22	-2.92	0.67	0.75	1.42
	Pilgrim Small Cap Opportunity	-22.21	-42.85	-14.09	2.69	0.90	0.75	1.65
	ING Small Company	-19.46	-25.33	0.49	0.65	0.86	0.75	1.61
	ING International	-22.43	-31.13	-18.60	N/A	1.15	0.75	1.90
	Janus Aspen Worldwide	-17.51	-28.53	-13.21	-1.53	0.69	0.75	1.44

VALIC RETIREMENT SERVICES COMPANY								
		Return on Investments (net of expenses)				Operating Expenses		
		Rates of Return as of September 30, 2002						
Level of Risk	Investment Options	Quarter to Date	Year to Date	Annualized		Management Fees	Other Expenses	Total Expenses
				3 Years	5 Years			
Low	VALIC Fixed-Interest Account	*	*	*	*	N/A	N/A	N/A
	Vanguard Long Term Bond Index	9.34%	12.08%	11.35%	8.69%	0.21%	0.42%	0.63%
	Vanguard Intermediate-Term Corporate Bond	5.40	8.26	9.26	7.10	0.21	0.42	0.63
Medium	Munder Balanced A	-8.82	-15.60	2.15	4.12	1.31	0.42	1.73
	American Funds American Balanced A	-11.64	-13.88	2.35	4.36	0.69	0.42	1.12
	American Funds Investment Co. of America A	-14.62	-21.01	-4.89	2.34	0.56	0.42	0.98
	Pioneer A	-18.29	-26.07	-10.16	0.15	1.11	0.42	1.53
	MFS Value A	-15.52	-18.74	0.25	4.46	1.21	0.42	1.63
	Dreyfus S&P 500 Index	-17.49	-28.78	-13.78	-2.57	0.50	0.42	0.92
	Calvert Social Inv. Equity	-16.31	-23.57	-0.01	2.16	1.13	0.42	1.55
High	Oppenheimer Capital Appreciation A	-15.14	-31.21	-8.86	0.13	1.03	0.42	1.45
	MFS Mass Inv. Growth A	-14.90	-30.58	-14.97	-0.79	0.87	0.42	1.29
	Invesco Technology Inv.	-30.14	-54.33	-31.82	-12.09	0.99	0.42	1.41
	Invesco Dynamics Inv.	-19.03	-39.24	-19.75	-4.93	1.00	0.42	1.42
	Neuberger Berman Genesis Trust	-8.71	-6.81	14.14	4.82	1.15	0.42	1.57
	Oppenheimer Global A	-18.29	-24.89	-2.31	3.16	1.12	0.42	1.54
	Putnam International Growth A	-20.81	-23.58	-9.17	-0.15	1.13	0.42	1.55

* Fixed Accounts provide a specified rate of return. For current rates, along with an explanation of how they are determined, contact your financial services organization.

Many Factors Can Contribute to Market Volatility

Each business day, countless developments impact stock prices. Some influence individual stocks, while others impact entire industries or market sectors. Domestic and international economies, political climates, corporate governance and accounting, and heightened unrest within our country and around the world can all cause stock prices to fluctuate. Remember, stock market fluctuations are the result of investors — like you — reacting to facts and circumstances. This is what drives market volatility and what can make the ups and downs so unpredictable at times. Below is a chart which shows pivotal points in history and the market's performance afterward.

DOW JONES INDUSTRIAL AVERAGE PERFORMANCE AFTER A CRISIS			
	Market Low After Crisis	Appreciation	
		1 Year Later	2 Years Later
1990 Persian Gulf War	08/23/90	23.6%	31.3%
1987 crash	10/19/87	22.9	54.3
1979–1980 oil crisis	03/27/80	27.9	5.9
1973–1974 stock market break	12/06/74	42.2	66.5
Gulf of Tonkin	08/06/64	7.2	3.1
Kennedy assassination	11/22/63	25.0	33.0
Cuban missile crisis	10/23/62	33.8	57.3
Average appreciation		25.8%	37.5%

Source: Dreman Value Management, L.L.C. Past performance does not guarantee future results.

Long-term Investing

Since contributions to the Deferred Compensation Plan are made through regular payroll deductions, when share prices drop, you purchase more shares. When share prices rise, you purchase fewer shares. This is called “dollar cost averaging” and it means you purchase securities in fixed dollar amounts at regular intervals, regardless of what direction the market is moving. It is an investment strategy designed to reduce the impact of volatility over time.

Keep in mind that when saving through an employer-sponsored retirement plan like a 457 or 401(k) plan, usually you are saving for the long term. Knee-jerk reactions to the normal ups and downs of the financial markets can result in your investments losing more value than if you just stay the course. However, even when investing for the long term, you should review your investment strategy periodically to make sure it continues to meet your needs. Remember that by allocating assets across a range of different types of securities, you limit your exposure to different kinds of risk.

Keep a Lookout for Upcoming Employee Meetings

The State of Maine's Deferred Compensation Plan is an important part of your retirement benefits, and can help you plan for and achieve a secure financial future. To ensure that you understand how the Plan works and how you can use it to your best advantage, we will be holding employee meetings in the near future.

EXPANDED CHOICES

Effective fourth quarter, 2002, the Plan is offering the most flexible investment option currently available through a deferred compensation plan: a Self-Direct Brokerage Account/Window (SDBA). Recommended for experienced investors who want more choices, this option allows you to invest in mutual funds not normally available to Plan participants. If you would like more information about the SDBA, please contact your financial services organization.